

**Report on the Schedule of Loans
Receivable From Federal Entities and
Related Interest Receivable Serviced by
the Treasury Bureau of the Public Debt at
September 30, 2000**

OIG-01-041

February 14, 2001



Office of Inspector General

The Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

February 14, 2001

MEMORANDUM FOR VAN ZECK, COMMISSIONER
BUREAU OF THE PUBLIC DEBT

FROM:

William H. Pugh
William H. Pugh,
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Report on the Schedule of Loans Receivable From
Federal Entities and Related Interest Receivable
Serviced by the Treasury Bureau of the Public Debt
at September 30, 2000

I am pleased to transmit the attached Report on the Schedule of Loans Receivable From Federal Entities and Related Interest Receivable Serviced by the Treasury Bureau of the Public Debt (BPD) at September 30, 2000 (Schedule of Loans Receivable). We contracted with KPMG LLP, an Independent Public Accountant (IPA), to audit the Schedule of Loans Receivable at September 30, 2000.

The attached Independent Auditors' Report includes the IPA's:

- Report on Schedule;
- Report on Internal Controls Over Financial Reporting; and
- Report on Compliance with Laws and Regulations.

The Schedule of Loans Receivable represents an intragovernmental receivable. These receivables arise from certain Federal entities that have been granted specific legislative authority to borrow from the Department of the Treasury. Using the funds borrowed, these entities make loans to various nonfederal borrowers, such as students and farmers. The BPD is responsible for the accounting and servicing of loans made to Federal entities. The audited Schedule of Loans Receivable presents the September 30, 2000, balances of Federal loans receivable and related interest receivable that are serviced by the BPD.

The IPA rendered an unqualified opinion on the Schedule of Loans Receivable at September 30, 2000. The IPA's report on internal

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controls contained no reportable conditions. In addition, the IPA's report on compliance with laws and regulations disclosed no instances of noncompliance.

The IPA issued a management letter dated January 10, 2001, discussing a matter identified during the audit, but which was not required to be included in the audit report.

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

U.S. Department of the Treasury

**Schedule of Loans Receivable from Federal Entities and Related
Interest Receivable**

Serviced by the Bureau of the Public Debt

At September 30, 2000



2001 M Street, N.W.
Washington, D.C. 20036

INDEPENDENT AUDITORS' REPORT

Inspector General, U.S. Department of the Treasury and
Commissioner, Bureau of the Public Debt:

We have audited the accompanying Schedule of Loans Receivable from Federal Entities and Related Interest Receivable Serviced by the Bureau of the Public Debt (BPD) at September 30, 2000 (the Schedule). Our report expresses an unqualified opinion on the Schedule.

In connection with our audit, and in accordance with *Government Auditing Standards*, we also considered BPD's internal controls over financial reporting related to the Schedule, and tested BPD's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on the Schedule.

The results of our audit of the Schedule, our consideration of BPD's internal controls over financial reporting related to the Schedule, and our tests of BPD's compliance with laws and regulations related to the Schedule are presented in more detail in the remainder of this report.

REPORT ON SCHEDULE

We have audited the accompanying Schedule of Loans Receivable from Federal Entities and Related Interest Receivable Serviced by the Bureau of the Public Debt at September 30, 2000. The Schedule is the responsibility of BPD's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures relating to the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.



In our opinion, the Schedule referred to above presents fairly, in all material respects, the loans receivable from Federal entities and related interest receivable serviced by the Bureau of the Public Debt at September 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

In planning and performing our audit, we considered BPD's internal control over financial reporting by obtaining an understanding of the BPD's internal controls related to the Schedule, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02, which are applicable to the Schedule, and *Government Auditing Standards*. We did not test all internal controls as defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on the internal controls related to the Schedule. Consequently, we do not provide an opinion on internal controls over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the Schedule being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal controls, misstatements due to error or fraud may occur and not be detected. We noted no matters involving internal control and its operation that we considered to be material weaknesses as defined above. Exhibit I presents the status of prior year audit findings.

However, we noted another matter involving internal control and its operation that we have reported to BPD in a separate letter, dated January 10, 2001.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of BPD is responsible for complying with laws and regulations applicable to the Schedule. As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of BPD's compliance with certain provisions of laws and regulations related to the Schedule, noncompliance with which could have a direct and material effect on the determination of the Schedule amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to the provisions described in the preceding sentence and we did not test compliance with all laws and regulations applicable to the Schedule. However, providing an opinion on compliance with applicable provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Federal Financial Management Improvement Act of 1996 (FFMIA) Based on discussions with the Office of Management and Budget, the preparation of the Schedule referred to above is not subject to the requirements of FFMIA and, accordingly, our test work did not encompass the FFMIA requirements.

DISTRIBUTION

This report is intended solely for the information and use of the U.S. General Accounting Office, the Office of Inspector General of the U.S. Department of the Treasury, the Commissioner and management of the Bureau of the Public Debt, and the U. S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 10, 2001

**Schedule of Loans Receivable from Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt**

Status of Prior Year Reportable Condition

September 30, 2000

Interest Verification

In accordance with the Federal Credit Reform Act (FCRA) loan agreements between the Secretary of the Treasury and the federal entities, the federal entities are responsible for calculating interest on the FCRA loans and the Bureau of the Public Debt (BPD) records interest based on these calculations.

During the year ended September 30, 1998, BPD initiated a process to recalculate the FCRA interest amounts determined by the federal entities. Subsequently, BPD improved the interest recalculation process by attending training, creating a template to recalculate the interest, and significantly increasing the number of recalculations that they completed for the year ended September 30, 1999. Furthermore, BPD recalculated all of the FCRA interest calculations and resolved any differences identified with the federal entities, for the year ended September 30, 2000.

For the year ended September 30, 1999, BPD recalculated interest for all non-FCRA loans, except for the Federal Financing Bank (FFB) loans. BPD did not recalculate the FFB interest because BPD did not have access to all the necessary information. FFB has several loans and calculates interest for BPD using an automated system. For the year ended September 30, 2000, BPD gained an understanding of FFB's system and tested the FFB system by recalculating a sample of the interest amounts without exception. In addition, BPD reconciled the monthly interest amounts from FFB's system to BPD's ledger system for the year ended September 30, 2000 and resolved any differences identified.

As a result of the internal controls that BPD has established, this reportable condition included in the prior year report is considered resolved.

U.S. Department of the Treasury
Schedule of Loans Receivable
from Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt
At September 30, 2000

(Dollars in Millions)

Loans Receivable from Federal Entities	\$191,592
Interest Receivable from Federal Entities	\$3,455

The accompanying notes are an integral part of this schedule.

U.S. Department of the Treasury
Schedule of Loans Receivable
from Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt
At September 30, 2000

Note 1. Significant Accounting Policies

A. Reporting Entity

Loans and interest receivable from federal entities represent intragovernmental receivables. These receivables arise from certain federal entities who have been granted specific legislative authority to borrow from the Department of the Treasury (Treasury). Using the funds borrowed, these entities make loans to nonfederal borrowers, such as students and farmers.

B. Basis of Presentation

The Schedule of Loans Receivable from Federal Entities and Related Interest Receivable serviced by the Bureau of the Public Debt (Schedule) has been prepared to report the balance outstanding at September 30, 2000 of amounts loaned by Treasury to federal entities and the related interest receivable. The Schedule has been prepared in accordance with the applicable provisions of Office of Management and Budget Bulletin No. 97-01, *Form and Content of Agency Financial Statements*.

C. Basis of Accounting

The Schedule was prepared in accordance with generally accepted accounting principles. The amounts included in the accompanying schedule are presented on the accrual basis.

D. Loans Receivable Writeoffs / Forgiveness

When a federal entity borrows from Treasury, the federal entity records an intragovernmental payable and Treasury records an intragovernmental receivable. In some cases, federal entities are unable to fully repay such loans. When this occurs, the federal entity requests an appropriation to repay the debt or obtains Congressional approval to forgive the debt. If the debt is forgiven, Treasury's intragovernmental receivable is written down, as well as the federal entity's intragovernmental payable. Since agencies have permanent indefinite budget authority, an allowance for uncollectible loans and interest receivable is unnecessary.

U.S. Department of the Treasury
Schedule of Loans Receivable
from Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt
At September 30, 2000

Note 2. Loans Receivable from Federal Entities

At September 30, 2000, loans receivable from various federal entities related to the following programs and funds (dollars in millions) are as follows:

Agency/Entity	Program/Fund	Balance
Education	Federal direct student loan program	\$65,347
Treasury	Federal Financing Bank revolving fund	27,836
Agriculture	Farm Service Agency: Commodity Credit Corporation	23,800
Small Business Administration	Disaster loan fund	9,582
Agriculture	Rural Housing Service: Rural housing insurance fund	8,607
Agriculture	Rural Utility Services: Rural electrification and tele- communications fund	10,077
Housing and Urban Development	Federal Housing Administration	7,155
Export-Import Bank	Export-Import Service: Export-Import Bank	6,683
Federal Communications Commission	Federal Communications Commission	5,307
Other	Other programs and funds	<u>27,198</u>
Total loans receivable from federal entities		<u>\$191,592</u>

U.S. Department of the Treasury
Schedule of Loans Receivable
from Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt
At September 30, 2000

Note 3. Railroad Retirement Board Loans Receivable

During 1984 through 1986, Treasury provided funds totaling \$2,128 million to the Railroad Retirement Board (RRB) in accordance with the Railroad Solvency Act of 1983. The Chief Counsel of the Bureau of the Public Debt (BPD) has reviewed these transactions and concluded that these transactions represent loans from Treasury to the Railroad Retirement Board and that the Railroad Retirement Board shall repay the loans by requesting appropriations or shall request forgiveness of the loans from Congress. Accordingly, BPD has reported the funds disbursed to the RRB as loans receivable in the Schedule.

The RRB considers the transactions as donated capital and has reported the transactions as such on its financial statements. BPD has not been able to resolve this dispute through negotiations with the RRB. As a result, and in accordance with the Code of Federal Regulations, Section 101.3 (c), BPD has requested the General Accounting Office to render its opinion as to whether the loans are valid receivables. The General Accounting Office is currently reviewing this matter.

Note 4. Interest Revenue

During the year ended September 30, 2000, interest earned on loans from federal entities totaled \$12,132 million.